

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 2001.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission File No. 0-30321

QUESTAR MARKET RESOURCES, INC.

-----  
(Exact name of registrant as specified in its charter)

STATE OF UTAH

87-0287750

-----  
(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

P.O. Box 45601, 180 East 100 South, Salt Lake City, Utah

84145-0601

-----  
(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (801) 324- 2600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding as of July 31, 2001

-----  
Common Stock, \$1.00 par value

-----  
4,309,427 shares

Registrant meets the conditions set forth in General Instruction H(a)(1) and (b) of Form 10-Q and is filing this Form 10-Q/A with the reduced disclosure format.

PART I FINANCIAL INFORMATION  
Item 1. Financial Statements

QUESTAR MARKET RESOURCES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Restated)  
(Unaudited)

3 Months  
Ended 6  
Months Ended  
June 30, June  
30, 2001 2000  
2001 2000 ---  
-----

----- (In

Thousands)

REVENUES \$

176,742 \$

165,201 \$

435,588 \$

306,962

OPERATING  
EXPENSES Cost  
of natural  
gas and other  
products sold  
78,209 79,790  
219,789  
143,683

Operating and  
maintenance  
25,415 24,551  
49,134 47,465

Exploration  
3,878 3,352  
5,495 6,607

Depreciation,  
depletion and  
amortization  
21,476 21,608  
42,315 42,821

Other taxes  
12,150 8,044  
28,987 15,358

Wexpro  
settlement  
agreement -  
oil income  
sharing 846  
1,209 2,025  
2,193 -----  
-- -----  
-----

----- TOTAL  
OPERATING  
EXPENSES  
141,974  
138,554  
347,745  
258,127 -----  
-----  
-----

OPERATING  
INCOME 34,768  
26,647 87,843  
48,835

INTEREST AND  
OTHER INCOME  
809 1,950  
12,760 3,153

MINORITY  
INTEREST 107  
169 INCOME  
FROM

UNCONSOLIDATED  
AFFILIATES  
179 306 228  
1,305 DEBT  
EXPENSE  
(4,060)  
(6,303)  
(9,045)  
(11,673) -----  
-----  
-----

INCOME BEFORE  
INCOME TAXES  
31,803 22,600  
91,955 41,620  
INCOME TAXES  
11,168 7,468  
32,976 13,101  
-----  
-----  
-----

NET INCOME \$  
20,635 \$  
15,132 \$  
58,979 \$  
28,519

=====  
=====  
=====  
=====

See notes to consolidated financial statements

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QUESTAR MARKET RESOURCES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Restated)

|  | June 30,<br>December 31,<br>2001 2000 | (Unaudited) -<br>-----        |
|--|---------------------------------------|-------------------------------|
|  |                                       | ----- (In<br>Thousands)       |
| ASSETS   |                                       |                               |
| Current  |                                       |                               |
| assets Cash<br>and cash<br>equivalents \$  | 3,980                                 |                               |
| Notes<br>receivable<br>from Questar<br>Corp. \$                                      | 29,000                                |                               |
| Accounts<br>receivable,<br>net   | 78,208                                | 148,433                       |
| Qualifying<br>hedging<br>collateral  | 48,377                                |                               |
| Hedging<br>contracts   | 2,933                                 |                               |
| Inventories,<br>at lower of<br>average cost<br>or market -<br>Gas and oil<br>storage | 2,528                                 | 7,618                         |
| Materials and<br>supplies  | 2,523                                 | 2,298                         |
| Prepaid<br>expenses and<br>other   | 6,495                                 | 4,828                         |
|  | 4,828                                 | -----                         |
|  | ---                                   | Total<br>current<br>assets    |
|  | 121,687                               | 215,534                       |
|  | 215,534                               | -----                         |
|  | -----                                 |                               |
| Property,<br>plant and<br>equipment  | 1,440,456                             | 1,400,159                     |
| Less<br>accumulated<br>depreciation,<br>depletion and<br>amortization                | 685,960                               | 662,923                       |
|  | 662,923                               | -----                         |
|  | -----                                 | Net<br>property,<br>plant and |

equipment  
 754,496  
 737,236 -----  
 -----  
 -----  
 Investment in  
 unconsolidated  
 affiliates  
 15,377 15,417  
 Other assets  
 Cash held in  
 escrow  
 account 5,387  
 Other 2,336  
 4,344 -----  
 -----  
 --- 2,336  
 9,731 -----  
 -----  
 --- \$ 893,896  
 \$ 977,918  
 =====  
 =====

LIABILITIES  
 AND  
 SHAREHOLDER'S  
 EQUITY

Current  
 liabilities  
 Checks  
 outstanding  
 in excess of  
 cash balance  
 \$ 2,399  
 Short-term  
 loans 12,500  
 Notes payable  
 to Questar  
 Corp. 8,900  
 51,000  
 Accounts  
 payable and  
 accrued  
 expenses  
 111,969  
 164,325 -----  
 -----  
 ----- Total  
 current  
 liabilities  
 123,268  
 227,825 -----  
 -----  
 ----- Long-  
 term debt  
 207,255  
 244,377 Other  
 liabilities  
 8,029 13,847  
 Deferred  
 income taxes  
 77,030 67,875  
 Minority  
 interest  
 7,761 5,483  
 Common  
 shareholder's  
 equity Common  
 stock 4,309  
 4,309  
 Additional  
 paid-in  
 capital  
 116,027  
 116,027  
 Retained  
 earnings  
 349,749  
 299,420  
 Cumulative  
 other

comprehensive  
income (loss)  
468 (1,245) -  
-----  
-----  
Total common  
shareholder's  
equity  
470,553  
418,511 -----  
-----  
----- \$  
893,896 \$  
977,918  
=====

See notes to consolidated financial statements

QUESTAR MARKET RESOURCES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Restated)  
(Unaudited)

|  | 6 Months<br>Ended June<br>30, 2001 | 2000     |
|--|------------------------------------|----------|
|  | -----                              | -----    |
| ----- (In<br>Thousands)  |                                    |          |
| OPERATING<br>ACTIVITIES  |                                    |          |
| Net income \$  | 58,979                             | \$       |
|  | 28,519                             |          |
| Depreciation,<br>depletion and<br>amortization                               | 42,675                             | 43,168   |
| Deferred<br>income taxes   | 8,263                              | (718)    |
| Income from<br>unconsolidated<br>affiliates,<br>net of cash<br>distributions | (127)                              | (1,155)  |
| Gain from<br>sale of<br>securities   | (896)                              |          |
| Changes<br>in operating<br>assets and<br>liabilities                         | 65,727                             |          |
|  | (37,077)                           | -----    |
| -----  |                                    |          |
| -- NET CASH<br>PROVIDED FROM<br>OPERATING<br>ACTIVITIES                      | 175,517                            | 31,841   |
| INVESTING<br>ACTIVITIES  |                                    |          |
| Capital<br>expenditures  | (80,211)                           | (97,384) |
| Proceeds from<br>disposition<br>of property,<br>plant and<br>equipment       | 19,214                             | 8,904    |

```

-----
----- NET
CASH USED IN
INVESTING
ACTIVITIES
(60,997)
(88,480)
FINANCING
ACTIVITIES
Change in
notes
receivable
from Questar
Corp.
(29,000)
4,000 Change
in notes
payable to
Questar Corp.
(42,100)
5,800 Checks
outstanding
in excess of
cash balance
2,399 (1,246)
Change in
short-term
loans
(12,500)
Change in
cash balance
in escrow
account 5,387
32,414 Long-
term debt
issued
185,000
37,476 Long-
term debt
repaid
(221,446)
(6,349) Other
2,446 Payment
of dividends
(8,650)
(8,650) -----
-----
- NET CASH
PROVIDED FROM
(USED IN)
FINANCING
ACTIVITIES
(118,464)
63,445
Foreign
currency
translation
adjustment
(36) (514) --
-----
---- Change
in cash and
cash
equivalents
(3,980) 6,292
Beginning
cash and cash
equivalents
3,980 -----
-----
Ending cash
and cash
equivalents $
-- $ 6,292
=====
=====

```

See notes to consolidated financial statements

QUESTAR MARKET RESOURCES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2001  
 (Restated)  
 (Unaudited)

Note 1 - Basis of Presentation

The interim financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature. Due to the nature of the business, the results of operations for the three- and six-month periods ended June 30, 2001, are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K/A for the year ended December 31, 2000,

Note 2 - Change in Method of Accounting for Gas and Oil Properties

On July 1, 2001, Questar Market Resources (QMR) elected to change its accounting method for gas and oil properties from the full cost method to the successful efforts method. The change was prompted by an acquisition of a company that uses successful efforts. A subsidiary, Wexpro, has always employed the successful efforts method. Management believes that the successful efforts method is preferable and will more accurately present the results of operations of the Company's exploration, development and production activities, minimizes asset write-downs caused by temporary declines in gas and oil prices and reflects impairment of the carrying value of the Company's gas and oil properties only when there has been an other-than-temporary decline in their fair value.

As a result of this change in accounting method, prior year and interim financial statements have been retroactively restated. The effect of the change in accounting method on previously reported earnings was an increase in net income of \$2.0 million for the six-month period ended June 30, 2001 and a decrease in net income of \$3.7 million in the six-month period ended June 30, 2000.

Note 3 - Subsequent Event - Acquisition

QMR acquired 100% of the common stock of Shenandoah Energy, Inc. (SEI) on July 31, 2001 for \$403 million in cash including assumed debt. SEI was a privately held Denver-based exploration, production, gathering and drilling company. QMR obtained an estimated 415 billion cubic feet equivalent of proved oil and gas reserves, gas processing capacity of 100 MMcf per day, 90 miles of gathering lines, 114,000 acres of net undeveloped leasehold acreage and four drilling rigs. SEI operations are located primarily in the Uintah Basin of eastern Utah. The transaction was accounted for as a purchase business combination in accordance with accounting principles generally accepted in the United States. The purchase price in excess of the estimated fair value of the assets was assigned to goodwill. The acquisition was financed through bank borrowings.

Note 4 - Financing

On March 6, 2001, Market Resources, in a public offering, issued \$150 million of 7.5% notes due 2011. Market Resources applied the proceeds of the debt offering to repay a portion of its outstanding floating-rate bank debt. On January 16, 2002, QMR issued \$200 million of 7% notes due 2007 and used the proceeds to repay existing debt. The notes were issued through a private placement; however, QMR intends to register the notes.

Note 5 - Operations By Line of Business

3 Months  
 Ended 6  
 Months Ended  
 June 30,  
 June 30,  
 2001 2000 --  
 -----  
 ---  
 ----- (In  
 Thousands)

REVENUES  
FROM  
UNAFFILIATED  
CUSTOMERS  
Exploration  
and  
production \$  
64,733 \$  
57,414  
\$143,053  
\$106,923  
Cost of  
service  
2,976 3,080  
8,042 6,924  
Gathering,  
processing  
and  
marketing  
84,348  
83,595  
231,827  
149,713 ----  
-----  
-----

\$152,057  
\$144,089  
\$382,922  
\$263,560  
=====  
=====  
=====  
=====

REVENUES  
FROM  
AFFILIATED  
COMPANIES  
Exploration  
and  
production \$  
-- \$ -- \$ 4  
\$ -- Cost of  
service  
22,691  
18,103  
46,066  
35,233  
Gathering,  
processing  
and  
marketing  
1,994 3,009  
6,596 8,169  
-----  
-----  
-----

\$ 24,685 \$  
21,112 \$  
52,666 \$  
43,402  
=====  
=====  
=====  
=====

DEPRECIATION,  
DEPLETION  
AND  
AMORTIZATION  
EXPENSE  
(Restated)  
Exploration  
and  
production \$  
16,395 \$  
17,066 \$  
32,095 \$  
33,378 Cost  
of service  
3,646 3,367  
7,414 6,904



Gathering,  
processing  
and  
marketing  
1,435 1,175  
2,806 2,539  
-----  
-----

\$ 21,476 \$  
21,608 \$  
42,315 \$  
42,821  
=====  
=====  
=====  
=====

OPERATING  
INCOME  
(Restated)  
Exploration  
and  
production \$  
22,959 \$  
15,367 \$  
60,763 \$  
27,685 Cost  
of service  
10,289 9,365  
20,778  
18,396  
Gathering,  
processing  
and  
marketing  
1,520 1,915  
6,302 2,754  
-----  
-----

\$ 34,768 \$  
26,647 \$  
87,843 \$  
48,835  
=====  
=====  
=====

=====  
NET  
INCOME  
(Restated)  
Exploration  
and  
production \$  
13,243 \$  
7,544 \$  
41,341 \$  
14,278 Cost  
of service  
6,487 5,950  
13,071  
11,737  
Gathering,  
processing  
and  
marketing  
905 1,638  
4,567 2,504  
-----  
-----

\$ 20,635 \$  
15,132 \$  
58,979 \$  
28,519  
=====  
=====  
=====  
=====

FIXED ASSETS  
- NET, at  
period end

(Restated)  
Exploration  
and  
production  
\$494,455  
\$485,988  
Cost of  
service  
167,680  
136,108  
Gathering,  
processing  
and  
marketing  
92,361  
73,294 -----

-----  
\$754,496  
\$695,390  
=====

GEOGRAPHIC  
INFORMATION

REVENUES

United  
States

\$165,423  
\$156,420  
\$410,923  
\$291,208

Canada

11,319 8,781  
24,665  
15,754 -----

-----  
\$176,742  
\$165,201  
\$435,588  
\$306,962  
=====

FIXED ASSETS

- NET, at  
period end  
(Restated)

United  
States

\$670,022  
\$601,025  
Canada  
84,474

94,365 -----

-----  
\$754,496  
\$695,390  
=====

Note 6 - Comprehensive Income (Restated)

Comprehensive income is the sum of net income as reported in the Consolidated Statement of Income and other comprehensive income transactions reported in Shareholder's Equity. Other comprehensive income transactions that currently apply to QMR result from changes in the market value of energy-hedging contracts and changes in holding value resulting from foreign currency translation adjustments. These transactions are not the culmination of the earnings process, but result from periodically adjusting historical balances to market value. Income or loss is realized when the gas or oil underlying the hedging contracts is sold. In 2000, other comprehensive income included mark-to-market adjustments of securities available for sale. QMR sold the balance of these securities late in 2000.



The Company adopted the accounting provisions of SFAS 133, as amended, "Accounting for Derivative Instruments and Hedging Activities" beginning in January 2001. SFAS 133 addresses the accounting for derivative instruments, including certain derivative instruments embedded in other contracts. Under the standard, entities are required to carry all derivative instruments in the balance sheet at fair value. The accounting for changes in fair value, which result in gains or losses, of a derivative instrument depends on whether such instrument has been designated and qualifies as part of a hedging relationship and, if so, depends on the reason for holding it. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposure to changes in fair value, cash flows or foreign currencies. If the hedged exposure is a fair-value exposure, the gain or loss on the derivative instrument is recognized in earnings in the period of the change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. If the hedged exposure is a cash-flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income in the shareholders' equity section of the balance sheet and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness, as well as the ineffective portion of the gain or loss, is reported in earnings immediately.

As of January 1, 2001, the Company structured a majority of its energy derivative instruments as cash flow hedges. As a result of adopting SFAS 133 in January 2001, the Company recorded a \$121 million hedging liability for derivative instruments. Measured at June 30, 2001, the results of hedging activities amounted to a \$2.9 million current asset. Settlement of contracts accounted for \$65.8 million of the decrease, while a decrease in prices of gas and oil on futures markets resulted in a \$58.1 million decline. The offset to the hedging asset, net of income taxes, was a \$1.9 million unrealized gain on hedging activities recorded in other comprehensive income in the shareholder's equity section of the balance sheet. The ineffective portion of hedging transaction recognized in earnings was not significant. The

fair-value calculation does not consider changes in fair value of the corresponding scheduled equity physical transactions.

The contracts at June 30, 2001 had terms extending through December 2003. About 82% of those contracts, representing approximately \$5 million, settle and will be reclassified from other comprehensive income in the next 12 months.

Note 8 - Reclassifications

Certain reclassifications were made to the 2000 financial statements to conform with the 2001 presentation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

QUESTAR MARKET RESOURCES, INC. AND SUBSIDIARIES  
 June 30, 2001  
 (Unaudited)

Operating Results

Questar Exploration and Production (Questar E & P), Wexpro, Questar Gas Management and Questar Energy Trading, collectively Questar Market Resources (QMR or the Company), conduct exploration and production, gas gathering and processing, and energy marketing operations. Following is a summary of QMR's financial results and operating information.

3 Months  
 Ended 6  
 Months  
 Ended June  
 30, June  
 30, 2001  
 2000 2001  
 2000 -----  
 -- -----  
 ----- --  
 -----  
 FINANCIAL

RESULTS -  
(dollars in  
thousands)

Revenues  
From  
unaffiliated  
customers  
\$152,057  
\$144,089  
\$382,922  
\$263,560  
From  
affiliates  
24,685  
21,112  
52,666  
43,402 ----  
-----  
-----

Total  
revenues  
\$176,742  
\$165,201  
\$435,588  
\$306,962  
=====  
=====  
=====

Operating  
income  
(Restated)  
\$ 34,768 \$  
26,647 \$  
87,843 \$  
48,835 Net  
income  
(Restated)  
\$ 20,635 \$  
15,132 \$  
58,979 \$  
28,519

OPERATING  
STATISTICS  
Production  
volumes

Natural gas  
(in million  
cubic feet)  
15,844  
17,674  
31,631

34,624 Oil  
and natural  
gas liquids  
(in  
thousands  
of barrels)

Questar  
Exploration  
&  
Production  
522 563  
1,017 1,117

Wexpro 114  
140 239 268  
Production  
revenue

Natural gas  
(per  
thousand  
cubic feet)  
\$ 3.31 \$  
2.48 \$ 3.74

\$ 2.33 Oil  
and natural  
gas liquids  
(per  
barrel)  
Questar

|  |         |  |
|--|---------|--|
| Exploration<br>&<br>Production   |         |  |
| \$ 20.36   | \$      |  |
| 19.77  | \$      |  |
| 20.91  | \$      |  |
| 20.69  |         |  |
| Wexpro   | \$      |  |
| 26.06  | \$      |  |
| 25.87  | \$      |  |
| 27.04  | \$      |  |
| 25.49  |         |  |
| Wexpro<br>investment<br>base at<br>June 30,<br>net of<br>deferred<br>income<br>taxes (in<br>millions)  | \$      |  |
| 127.2  | \$      |  |
| 108.2  |         |  |
| Marketing<br>volumes in<br>energy<br>equivalent<br>decatherms<br>(in<br>thousands<br>of<br>decatherms) |         |  |
| 23,524   |         |  |
| 25,180   |         |  |
| 47,552   |         |  |
| 52,205   |         |  |
| Natural gas<br>gathering<br>volumes (in<br>thousands<br>of<br>decatherms)                              |         |  |
| For<br>unaffiliated<br>customers   |         |  |
| 24,526   |         |  |
| 23,261   |         |  |
| 46,611   |         |  |
| 45,039   | For     |  |
| Questar Gas  |         |  |
| 8,695  | 9,235   |  |
| 18,906   |         |  |
| 19,088   | For     |  |
| other<br>affiliated<br>customers   |         |  |
| 6,601  | 6,514   |  |
| 13,400   |         |  |
| 11,678   | ----    |  |
| -----  |         |  |
| -----  |         |  |
| Total<br>gathering   |         |  |
| 39,822   |         |  |
| 39,010   |         |  |
| 78,917   |         |  |
| 75,805   |         |  |
| =====  |         |  |
| =====  |         |  |
| =====  |         |  |
| Gathering<br>revenue<br>(per<br>decatherm)   |         |  |
| \$ 0.13  | \$      |  |
| 0.13   | \$ 0.13 |  |
| \$ 0.14  |         |  |

## Revenues

Strong natural gas prices more than offset lower production volumes resulting in revenues that were 7% higher in the second quarter and 42% higher in the first half of 2001 when compared with the corresponding 2000 periods. Questar E & P reported that its average realized natural gas price was 33% higher in the second quarter and 61% higher in the first half of 2001. Production volumes decreased in 2001 as a result of selling reserves in place and a natural decline in older fields. However, production volumes for the second half of 2001 will increase due to QMR's acquisition of Shenandoah Energy, Inc. (SEI).

On July 31, 2001, QMR acquired SEI at a cost of \$403 million including the assumption of debt. QMR received 415 billion cubic feet equivalent of proved reserves comprised of approximately 72% gas and 28% oil. SEI is expected to add 63 million cubic feet equivalent per day of gas and oil to QMR's nonutility production.

Approximately 58% of gas volumes in the first half of 2001 were hedged with floors and ceilings averaging \$3.04 per Mcf and \$3.27 per Mcf, respectively, net to the well. The remainder of gas production realized prices averaging about \$5.59 per Mcf, driven by cold winter temperatures and an energy shortage in the western United States. Approximately 58% of gas production for the second half of 2001, including production from SEI properties, is hedged with floors and ceilings averaging \$3.03 per Mcf and \$3.40 per Mcf, respectively, net to the well. Approximately 16% of 2002 gas production is hedged at a floor of \$3.55 per Mcf and a ceiling of \$4.05 per Mcf, net to the well. Hedging activities reduced revenues from gas sales by \$58.6 million in the first half of 2001.

For Questar E & P, prices for oil and natural gas liquids (NGL) were 1% higher in the first half of 2001. Approximately 60% of oil production in the first half of 2001 was hedged at an average price of \$17.20 per barrel, net to the well. Realized prices for the remaining oil production averaged about \$27 per barrel. Hedging activities reduced revenues from oil sales by \$5.8 million in the first half of 2001. NGL prices increased 47% over the same period in 2000. QMR does not hedge the sales price of NGL.

Revenues from energy marketing increased \$81.7 million in the first half comparison primarily due as a result of higher gas prices. The margin from energy marketing was \$6.3 million in the first half of 2001 compared with \$700,000 in the 2000 period.

## Expenses (Restated)

Operating and maintenance expenses were higher in the 2001 periods presented when compared with the corresponding 2000 periods. The expenses of operating producing properties increased \$2.3 million in the first half comparison primarily due to adding properties. Also, the expenses of operating a gas storage facility that began operations in the third quarter of 2000 resulted in a \$500,000 increase in the first half of 2001. However, legal costs were \$2.1 million lower in the first half of 2001 following the settlement of a major lawsuit in the second half of 2000. Exploration expense declined \$1.1 million from the 2000 period as a result of reduced exploration activity.

Depreciation, depletion and amortization (DD&A) was lower in the first half of 2001 compared with the first half of 2000 as a result of decreased production more than offsetting a higher DD&A rate. The combined U.S. and Canadian DD&A rate for the first half of 2001 was \$.84 per thousand cubic feet equivalent (Mcf) of production compared with \$.80 for the corresponding period a year ago. The 2001 rate increase reflects rising costs associated with drilling operations as a consequence of increased industry activity.

Other taxes increased because of higher gas prices and the effect on production-related taxes. Debt expense was lower in the 2001 periods because of lower debt levels.

The effective income tax rate for the first half of 2001 was 35.9% compared with 31.5% for the same period of 2000. The effective income tax rate increased because of a higher portion of earnings derived from Canada, where income tax rates

are higher. The Company recognized \$2.4 million of non-conventional fuel tax credits in the 2001 period and \$2.3 million in the 2000 period.

## Other income (Restated)

Other income includes a \$10.6 million pretax gain from selling non-strategic oil and gas and gathering properties, primarily in the first quarter of 2001 and a \$900,000 pretax gain from selling securities in the second quarter of 2000.

#### Net income (Restated)

QMR's first half net income increased \$24.7 million, representing a 107% improvement over the first half of 2000. The increase resulted from higher commodity prices, increased earnings for Wexpro and gains from selling non-strategic assets. Wexpro's net income was \$1.3 million higher in the first half of 2001. Wexpro increased its investment in development-drilling projects resulting in a \$19 million increase in the Wexpro investment base since June 30, 2000. Wexpro develops gas reserves on behalf of affiliated company, Questar Gas, which is a rate-regulated distributor of natural gas. In addition, higher oil and NGL prices contributed to Wexpro's improved earnings.

#### Liquidity and Capital Resources

##### Operating Activities (Restated)

Net cash provided from operating activities in the first half of 2001 of \$175.5 million was \$143.7 million more than was generated in the first half of 2000. The increase in cash flow from operating activities resulted from higher net income, the release of cash deposited as collateral for qualifying hedging contracts and the collection of receivables.

##### Investing Activities (Restated)

Capital expenditures were \$80.2 million in the first half of 2001. The acquisition of SEI on July 31, increased 2001 capital expenditures by \$403 million. Forecasted capital expenditures for calendar year 2001 are \$560 million.

##### Financing Activities

Net cash provided from operating activities in the first half of 2001 enabled QMR to repay short-term debt, finance capital expenditures and loan the remaining cash to Questar. Proceeds from the sale of assets in the first quarter of 2001 amounting to approximately \$26.5 million were used to repay debt balances. QMR borrowed \$414 million to finance the acquisition of SEI and will consider selling non-strategic assets and/or issuing equity to reduce the level of debt. On March 6, 2001, QMR in a public offering issued \$150 million of 7.5% notes due 2011. QMR applied the proceeds of the debt offering to repay a portion of its outstanding floating-rate debt. QMR expects to finance remaining 2001 capital expenditures with the proceeds of net cash provided from operating activities, bank loans and borrowing from Questar.

#### Quantitative and Qualitative Disclosures about Market Risk

QMR's primary market-risk exposures arise from commodity-price changes for natural gas, oil and other hydrocarbons and changes in long-term interest rates. The Company has an investment in a foreign operation that may subject it to exchange-rate risk. QMR also has reserved pipeline capacity for which it is obligated to pay \$3 million annually for the next six years, regardless of whether it is able to market the capacity to others.

#### HEDGING POLICY

The Company has established policies and procedures for managing market risks through the use of commodity-based derivative arrangements. Primary objectives of these hedging transactions are to support the Company's earnings

targets and to protect earnings from downward moves in commodity prices. The Company will target between 50 and 75% of the current year's production hedged at or above plan levels by the first of March in the current year. The Company will ladder in these hedges, to reach forward beyond the current year when price levels are right. The volume of production hedged and mix of derivative instruments employed are regularly evaluated and adjusted by management in response to changing market conditions and reviewed periodically by the Board of Directors. Additionally, under the terms of the Market Resources' revolving credit facility, not more than 75% of Market Resources' production quantities can be committed to hedging arrangements. The Company does not enter into derivative arrangements for speculative purposes.

#### ENERGY-PRICE RISK MANAGEMENT



Oil and natural gas prices fluctuate in response to changes in supply and demand. Market Resources bears a majority of the risk associated with commodity price changes and uses hedge arrangements in the normal course of business to limit the risk of adverse price movements. However, these same arrangements usually limit future gains from favorable price movements.

QMR held hedge contracts covering the price exposure for about 61.6 million dth of gas and 459,000 barrels of oil at June 30, 2001. A year earlier the contracts covered 50.3 million dth of natural gas and 1.7 million barrels of oil. The hedging contracts exist for a significant share of QMR-owned gas and oil production and for a portion of energy-marketing transactions. The contracts at June 30, 2001 had terms extending through December 2003. About 82% of those contracts, representing approximately \$5 million, settle and will be reclassified from other comprehensive income in the next 12 months.

The undiscounted mark-to-market adjustment of financial gas and oil price-hedging contracts at June 30, 2001 was a negative \$4.3 million. A 10% decline in gas and oil prices would cause a positive mark-to-market adjustment of \$7.9 million; while a 10% increase in prices would cause a negative mark-to-market adjustment of \$7.9 million. The mark-to-market adjustment of gas and oil price-hedging contracts at June 30, 2000 was a negative \$69.1 million. A 10% decline in gas and oil prices at that time would have caused a positive mark-to-market adjustment of \$20.3 million. Conversely, a 10% increase in prices would have resulted in a \$20.3 million negative mark-to-market adjustment at that date. The calculations reflect energy prices posted on the NYMEX, various "into the pipe" postings, and fixed prices on the indicated dates. These sensitivity calculations do not consider changes in the fair value of the corresponding scheduled physical transactions (i.e., the correlation between the index price and the price to be realized for the physical delivery of gas or oil production), which should largely offset the change in value of the hedge contracts.

#### INTEREST-RATE RISK MANAGEMENT

As of June 30, 2001, QMR held \$57.3 million of floating-rate long-term debt. The book value approximates fair value.

#### FOREIGN CURRENCY RISK MANAGEMENT

The Company does not hedge the foreign currency exposure of its foreign operation's net assets and long-term debt. Long-term debt held by the foreign operation, amounting to \$42.3 million (U.S.), is expected to be repaid from future operations of the foreign company.

#### Forward-Looking Statements

This report includes "forward-looking statements" within the meaning of Section 27(a) of the Securities Act of 1933, as amended, and Section 21(e) of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included or incorporated by reference in this report, including, without limitation, statements regarding the Company's future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "could", "expect", "intend", "project", "estimate", "anticipate", "believe", "forecast", or "continue" or the negative thereof or variations thereon or similar terminology. Although these statements are made in good faith and are reasonable

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representations of the Company's expected performance at the time, actual results may vary from management's stated expectations and projections due to a variety of factors.

Important assumptions and other significant factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements include changes in general economic conditions, gas and oil prices and supplies, competition, rate-regulatory issues, regulation of the Wexpro settlement agreement, availability of gas and oil properties for sale or for exploration and other factors beyond the control of the Company. These other factors include the rate of inflation, assumptions used in business combinations, the weather and other natural phenomena, the effect of accounting policies issued periodically by accounting standard-setting bodies, and adverse changes in the business or financial condition of the Company.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QUESTAR MARKET RESOURCES, INC.  
(Registrant)

February 14, 2002

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(Date)

/s/ G. L. Nordloh

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G. L. Nordloh  
President and Chief Executive Officer

February 14, 2002

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(Date)

/s/ S. E. Parks

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S. E. Parks  
Vice President, Treasurer and  
Chief Financial Officer